Introduction

1. The consultation with Australia under paragraph 1(g) of Article XIV had been initiated by that Government pursuant to those provisions in March 1956 and was concerned with its continued resort to the provisions of paragraphs 1(b) and (c) of that Article. At the plenary meeting on 15 October, the CONTRACTING PARTIES agreed also to invite Australia to consult with them under the provisions of paragraph 4(b) of Article XII. In conducting the latter consultation the Working Party paid special attention to the extensive changes introduced in the Australian import restrictions on 1 July 1956 which it understood to be part of a series of measures designed to deal with Australia's balance-of-payments difficulties concerning which Australia had twice consulted in the past eighteen months. The Working Party therefore took into account the reports of the two previous Working Parties which conducted the consultations in June-July and November 1955 (L/370 and L/465). The present report represents a summary of the major points of discussion and broadly follows the pattern of the plan recommended by the CONTRACTING PARTIES for consultations under Article XII:4. Some questions which are exclusively relevant for the consultation under Article XIV:1(g) are dealt with in a section towards the end of the report.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV:2, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with these consultations with Australia. As relevant, the Fund referred to the results of its 1955 consultations with Australia together with the background material prepared by the Fund Staff for that consultation and to the background paper on developments in Australia since that consultation which the Fund had specially prepared for the assistance of the CONTRACTING PARTIES. These documents were referred to and taken into account by the Working Party in the course of the present consultations. The result of the Fund's 1955 consultation with Australia and the text of a statement made by the Fund representative at the Working Party are appended to this report.

Circumstances leading to the changes introduced on 1 July

3. In opening the discussion the Australian representative made a general statement outlining the developments that had taken place in the Australian economy since the consultations at the Tenth Session. At that time it had been hoped by the Australian Government that the additional import licensing restrictions introduced from 1st October 1955 combined with the fiscal and
monetary measures that had been taken to restrain excess demand would be sufficient to produce reasonable stability internally and to bring the balance of payments into equilibrium by the middle of 1956 so that over the financial year 1956/57 as a whole there would be no further drain on reserves.

4. In fact, however, the Government had found it necessary in March 1956 to introduce further heavy increases in taxation and to allow interest rates to rise in order to reinforce the counter-inflationary measures previously taken. Despite these measures, the full effects of which had not yet been felt, the pressure of demand for imports remained high. By June it had become apparent that the October 1955 import licensing restrictions were working much more slowly than had been expected and that there was in any case no prospect that they would cut the annual import rate to anything like the figure aimed at - i.e. £650 million. The Australian Government had reviewed the situation in June and, although export prospects were felt to be considerably better than they were in 1955 when the target figure of £650 million was decided upon, it had reached the conclusion that some additional import licensing cuts were unavoidable if the balance-of-payments position was to be adequately safeguarded. The new measures introduced to operate from 1st July were designed to save some £40 million in a full year but were not expected to save more than £20 million in 1956/57. Even after the new cuts, imports in 1956/57 were expected to exceed £700 million and, even with the improvement in export prospects, it seemed clear that a further drain on reserves in 1956/57 would be avoided only if net private capital inflow - a highly variable item in the Australian balance of payments over the post war years - remained favourable.

5. To reinforce these new import licensing measures the Australian Treasurer had in August 1956 introduced a Budget which, after providing for the financing of the whole of the Commonwealth Government's £110 million capital works programme from revenue, was expected to produce a surplus of some £108 million. The Treasurer in his Budget speech had emphasised that the Australian Government was fully aware that, if continued for long, import restrictions of the present severity must be damaging to the Australian economy but had said that he could not hold out much hope of early alleviation of the position unless there was a major improvement in Australia's export earnings or unless there was a much greater inflow of capital into Australia than had been the case in recent times.

6. The full text of the opening statement by the Australian representative summarised in the preceding paragraphs is appended to the report.

Recent Australian trade trends

7. Proceeding with the consultation under the headings of the plan the Australian delegate, at the request of a member of the Working Party, provided the following preliminary figures for Australian exports and imports over the past three months.
1956 Imports Exports Balance

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<td></td>
<td>(£. million f.o.b.)</td>
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<tr>
<td>July</td>
<td>57.5</td>
<td>65.0</td>
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<tr>
<td>August</td>
<td>78.7</td>
<td>61.5</td>
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<tr>
<td>September</td>
<td>54.0</td>
<td>61.8</td>
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<td>190.2</td>
<td>188.3</td>
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The Australian representative agreed that the surpluses on visible trade recorded in July and September were encouraging but felt no firm conclusions about the underlying trend could be drawn from figures for one or two months. Moreover, not invisibles (including freight and insurance on imports, dividends and royalties, interest payments on overseas debt and tourist expenditure) were always a substantial deficit item in the Australian balance of payments. Accordingly a large visible trade surplus was needed if the balance of payments on current account was to be brought into equilibrium.

8. In response to a question on the prospects for increased exports of manufactured goods from Australia, the Australian representative said that a wide range of goods were manufactured in Australia at costs that would be competitive in export markets. With the general expansion of the economy, however, domestic demand had been increasing rapidly and in the great majority of instances absorbed the whole, or virtually the whole, of Australian output. In addition to taking measures to curb demand the Government had been trying with some success to stimulate the interest of Australian manufacturers in the export trade. He could not estimate in any precise way what the increase in exports in 1956/57 might be but expected it might well be "some millions". He mentioned automobiles and trucks as figuring prominently in this expected increase.

9. The representative of Canada drew attention to a reference in the International Monetary Fund background paper on New Zealand to the fact that "a special arrangement to import NZ£1 million worth of automobiles and trucks manufactured in Australia was announced" and asked whether the Australian delegation could provide further information. The Australian representative explained that the decision by New Zealand to license additional motor vehicles for importation from Australia followed a visit which the New Zealand Prime Minister had paid to Australia some months ago. There had been discussions between the New Zealand Prime Minister and the Australian Prime Minister on mutual trade problems. As a result, some changes had been made in the import licensing arrangements in both countries to meet special factors affecting trade in the products concerned. There was however nothing in the nature of a formal agreement between the two countries on import licensing matters.
Basic Policy and Internal Measures

10. A member of the Working Party said it was clearly brought out, both in the Fund background paper and the opening statement of the Australian representative, that the extremely rapid rate of economic development in Australia was a major factor in the balance-of-payments difficulties Australia had been experiencing. He asked whether any recent measures had been taken to curb the rate of economic development.

11. The Australian representative said that the powers of the Commonwealth Government to control the rate of economic development were limited. However, in the public sector the Commonwealth Government had been successful in stabilising public works expenditure—much of it of a basic developmental character—over recent years. In the private sector two recent steps to curb the rate of expansion had been the increase in company taxation in March last and the rise in interest rates.

12. A field which the Government could influence directly was the rate of immigration. Here, the basic aims were to keep the immigration rate as high as was reasonably possible and to avoid violent fluctuations from year to year. In his Budget speech the Treasurer announced that it had been decided that the gross intake of migrants in the current year would be limited to 115,000, a reduction of 18,000 on the 1955/56 total. For future general planning purposes a figure for net immigration equivalent to one per cent of population per annum has been adopted as the aim.

13. A member of the Working Party asked whether the fact that expenditure on personal consumption was contributing strongly to excess demand in Australia had affected the pattern of Australian imports between investment goods and consumer goods. The Australian representative said that there had been an investment as well as a consumption boom in Australia and that demand for both investment and consumer goods had remained high over recent years. The taxation increases imposed in March 1956 had been particularly directed towards reducing personal consumption expenditure.

14. In response to a question on the effects of recent increases in interest rates in Australia the Australian representative said it was not thought that the recent increases would cause any marked increase in capital inflow. However, the lower rates prevailing before the recent increases had, particularly after the increase in Bank rate in the United Kingdom, led to a trend towards capital outflow. For example, traders had tended to switch from the United Kingdom banking system to the Australian banking system for their short-term finance. The raising of interest rates in Australia would it was hoped check that trend.

15. Several members of the Working Party expressed their gratification at the fact that the Australian Government was not relying solely on quantitative import restrictions to overcome her balance-of-payments difficulties but was seeking to remedy the root causes of the disequilibrium by taking, within the limits of its constitutional powers, appropriate fiscal and monetary measures.
Changes in the Import Restrictions

16. For a description of the import control system and methods used in Australia, the Australian representative referred the Working Party to documents L/493 and L/493/Add.1, the Australian reply to the questionnaire on discriminatory import restrictions and the background paper supplied by the Fund. It was noted that the changes introduced on 1 July 1956 related only to goods under quota control from non-dollar countries, (the general level of licences of imports from the dollar area was not affected by the changes). Items previously in the "Administrative" category were transferred to the A and B categories to which the global quota method applied. For more than half of the items in category A, quotas remained at 100% of the level in the previous quarter. The majority of the remaining items in Category A were reduced by various percentages up to 30% below the level in the previous quarter. A few were reduced by a third or a half and in two cases, where the demand for imports had become negligible, the quotas were reduced by 80% and 90%. In a small number of cases new quotas for Category A goods based on the percentages of imports during 1954/55. Goods in the B category were sub-divided into seven sub-categories, known as B(1), B(2) etc. The interchangeability previously existing for the whole category was now applied only to goods within each sub-category. Quotes for these sub-categories were based on a percentage of imports in 1954/55, whereas previously the base year used had been 1950/51.

17. Several members of the Working Party asked questions about the policies followed in licensing goods in the Administrative category. The Australian delegate explained that import licensing budgets for goods in the Administrative category were drawn up each quarter. This permitted flexibility in the allocations but did not mean that trade in the goods concerned was subject to arbitrary variations of a disruptive character. In his press statement of 28 June the Acting Australian Minister for Trade had referred to "some tightening and re- adjustment of allocations to permit the foreign exchange requirements of essential development programmes to be met". The quarterly budget system provided a means whereby priority could be given to plant and equipment required for important development projects. In the main however the allocations for goods included in the Administrative licensing budgets did not very greatly from quarter to quarter.

Effects of the Restrictions on Trade

18. The representatives of a number of contracting parties called attention to the fact that the changes introduced in July 1956, owing to the selection of products on which heavy quota reductions were made, particularly affected their exports. The Netherlands delegate, while recognising that there was no country discrimination in the Australian non-dollar licensing system, said that what might be termed "article discrimination" bore severely on the exports to Australia of some countries, including the Netherlands. The French representative informed the Working Party that on the basis of official data, it had been calculated that French exports to Australia, including textiles,
motor cars and wines, would be cut by about 15 per cent; 3.5 per cent of
the reduction would be borne by 2 per cent of the Australian imports. The
Austrian representative referred to a similar situation regarding his country's
principal exports of textiles and paper. The Italian representative considers
that due to the composition of its exports Italy would be more affected than
other countries.

19. The Swedish representative said that paper and paper board which were of
particular importance in Sweden's export trade appeared to have been selected
for specially severe restriction in the July measures. A number of paper
items formerly in Category A had been transferred to the new Sub-category B(5)
for which licences were now being granted only on the basis of 33 l/3 per cent
of 1954/55 imports. Paper products accounted for only 1.2 per cent of total
imports in 1954/55 but it would seem that the new cuts now being imposed on
the licensing of paper products would account for no less than 16 per cent of
the expected saving of £40 million a year. The delegates for Finland and
Norway supported the views of the Swedish delegate and in addition the delegate
for Norway pointed out that his country's second major export, canned fish,
had also been affected by the new Australian restrictions.

20. Some of these representatives pointed out that although it was within the
right of Australia to choose the products to which to apply its restrictions,
the great variation in the level of quotas applied to different sub-categories
had the unfortunate effect in practice of discriminating against the exports
of certain countries. In applying import restrictions a contracting party
had the obligation to avoid any unnecessary damage to the commercial and
economic interests of the other contracting parties. In view of the improve­
ment in Australia's export prospects they hoped that the utmost would be done
to ease the restrictions on the commodities in the "B" category. In this
connexion the Italian representative suggested that in the interest of
Australian exports the restrictions should be reduced as soon as permitted by
the balance-of-payments position, and several members of the Working Party
expressed the hope that any relaxation of restrictions would begin with the
latest import restrictions. The delegate for Canada expressed the hope that
when any relaxation was possible dollar goods would share in them.

21. In the course of the discussion that followed the Australian representative
pointed out that despite the previous intensifications of Australian import
restriction in April and October 1955 imports into Australia from most European
countries had actually increased in value in 1955/56. There always had to be
some flexibility in administering any system of import licensing and the fears
expressed by the various members of the Working Party might well prove in
retrospect later on to have been exaggerated.

22. On the question of paper and paperboards, the Australian representative
pointed out that not all such items were included in sub-category B(5), for
which the quotas had indeed been drastically cut; certain paper items were
licensed in the "all countries" budget whilst others were included either in
the A or the Administrative categories. In addition some items initially
licensed under Category B(5) were now being licensed in Category A. He also pointed out that the development of domestic supplies would have brought about a reduction in imports irrespective of the new restrictions. In conclusion the Australian representative stated that he had taken note of all the statements concerning the effects of the restrictions as felt by the contracting parties concerned, and of the hope they expressed for an early relaxation of the restrictions. These would be reported to the Australian Government for consideration. The Australian representative also said that his Government was always prepared to discuss with the trade representatives of any contracting party any special difficulties and to make adjustments in an endeavour to meet such special cases wherever it was practicable to do so within the limits imposed by the necessity of protecting the balance of payments. On the question of avoiding unnecessary damage to the trade of contracting parties, the Australian representative called attention to the fact that with minor exceptions in relation to Japan the restrictions on non-dollar imports were applied non-discriminatorily to imports from all countries outside the dollar area. Importers were thus permitted to purchase from any source except the dollar countries which might prove the most advantageous on commercial considerations. In this way possible damage to any particular contracting party was reduced to the minimum.

23. The Netherlands representative took the opportunity to express his Government's appreciation of the fact that in imposing the new restrictions the Australian Government had made special arrangements to permit the importation of goods on firm order.

24. The United States representative said that when restrictions were maintained for a long time it was essential that affected exporters should be permitted to maintain some contact with the market of the country applying the restrictions so that the outlet would not be totally lost to them when the restrictions were reduced and eventually eliminated. The United States Government therefore appreciated the opportunities which had been provided for direct discussion to take place with the Australian Government.

Steps taken to reduce the protective effects of the restrictions

25. On the question of reducing the incidental protective effects of the restrictions, the Australian representative referred to the various statements made by his Government since 1952 on the fundamental policy of not using quantitative restrictions for protective purposes and the repeated warnings given by the Consultative Committee on Import Policy, as well as by the Associated Chambers of Manufactures, that the quantitative restrictions temporarily applied for balance-of-payments reasons should not be relied upon for protection. The interchangeability of quotas within Category B had been conceived as an effective means of reducing the protective effects on any particular domestic industries. In response to a question the Australian representative said that the reduction in the scope of the interchangeability as a result of the July measures might to some extent increase the risk of uneconomic expansion of domestic production, but against this disadvantage
had to be weighed the need for minimising damaging effects on the economy of the trafficking in licences under the old system. In any case as almost all expansion of production required some imported capital goods components or raw materials the licensing authorities could act to prevent the setting up or expansion of non-competitive industries.

**Discriminatory Aspects of the restrictions**

26. As relevant for the consultation under Article XIV:1(g) the Australian representative stated that apart from the special treatment accorded to a limited number of imports from Japan, discrimination in the application of Australia's import restrictions was against the dollar area only. The discriminatory application of restrictions is pursuant to the provisions of paragraph 1(b) and 1(c) of Article XIV. He stated that, in determining its policy on discrimination, Australia has had to take into consideration its deficits on dollar account, indicated in the statistics supplied by the International Monetary Fund, and the fact that such deficits have been met by drawings on the sterling area's dollar resources.

27. The Australian representative noted that since the consultation in 1955 under Article XIV, the discriminatory element in the restrictions had been reduced in two ways. First, three more items were added to the list of products for which quotas were established on a world-wide basis and for which licences issued were valid for imports from all countries. Secondly, the limitation placed on imports from non-dollar countries as a result of the changes introduced in July 1956 had the effect of reducing the margin of discrimination between restrictions on dollar imports and those on non-dollar imports.

28. Replying to questions, the Australian representative stated that in expanding the area of non-discriminatory quotas, it was likely that further items would be added to the list of world quota products as the financial position permitted. By gradually enlarging that list, it was hoped that discrimination would be reduced and eventually eliminated. On this point certain members of the Working Party said that their governments welcomed such attempts at reducing discrimination and hoped that further progress would be made in the near future.

29. On the question of the role played by price considerations in licensing goods from the dollar area, the Australian representative said that while price was only one of a number of factors to be taken into account the Australian authorities were keenly aware of the need to keep costs down in Australian industries both primary and secondary. In general, it was the practice to license essential items from the dollar area wherever there was a significant price advantage to be gained.
30. The representative of Canada said that, in view of comments made by other members of the Working Party about the effects of the Australian restrictions on their trade, he felt he should point out that the dollar countries were the most severely affected. Canada's exports to Australia were restricted to a relatively narrow range of products and the total volume of trade remained below the pre-war level. Nevertheless Canada was fully aware of the difficulties with which the Australian Government was confronted and particularly welcomed the fiscal and monetary measures which had been taken with a view to reducing reliance on quantitative import restrictions.

General

31. Members of the Working Party commented that the active participation of delegates from the various countries in the discussion indicated the widespread effects on trade of the Australian restrictions. Sympathy was however expressed with the balance-of-payments difficulties with which Australia, as a rapidly developing country, was confronted. It was also noted with gratification that the Australian Government had reaffirmed its intention to relax the restrictions as soon as practicable and to pursue internal policies designed to reduce and eventually eliminate the need to rely on quantitative restrictions.

APPENDICES

1. Statement by the Australian representative at the opening of the consultations.

2. Statement by the Fund and the results of the Fund's consultations with Australia in 1955.